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Board of Directors
Fourteenth Annual Study
Billion Dollar Corporations
1987

KORN/FERRY INTERNATIONAL

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KORN/FERRY INTERNATIONAL
FOURTEENTH ANNUAL BOARD OF DIRECTORS STUDY OF BILLION DOLLAR CORPORATIONS

Introduction

As part of our annual Board of Directors Study, we make a special analysis of the statistical data pertaining to industrial and service companies with revenues in excess of $1 billion.

Our most recent survey was answered by 532 companies, of which 194, or 36 percent, were industrial and service companies in the $1 billion-and-over category. Of these, 68 companies, or 35 percent, reported revenues of $5 billion and over. In the fourteen years since we began our study, we have discovered that these larger companies have consistently been the trend-setters in matters of corporate governance. Their innovations and the directions they have taken in board practices have had a tremendous influence on the board policies generally adopted by most other corporations. It has always been, therefore, with special attention that we have regarded the survey data on these leading corporations.

Continuing Problems in Recruiting Directors

In 1986, we found that among these giants the shortage of qualified directors continues and, indeed, is more pronounced than ever. Fully 78 percent of the chairmen we surveyed believe that there is still a problem finding and attracting qualified directors. And the same percentage (78 percent) state that the problem has *not* diminished since last year. Among the largest corporations ($5 billion and over), 85 percent of the chairmen saw no improvement in their ability to recruit and retain directors.

Meanwhile, one out of four companies reported that a prospective director had refused the offer of a board seat. Citing time demands and the issue of legal liability, candidates for board seats are saying no more often.

The CEOs of these leading companies are among the first to politely refuse additional board seats. Fifty-two percent of them have turned down an offer in the past year (compared with 42 percent in the overall population surveyed). Although they are the most in demand, these chairmen believe that CEOs should limit the number of directorships they accept to one or two. Only 47 percent of the billion dollar company CEOs said they would consider accepting another directorship, and only 37 percent of the CEOs from $5 billion-and-over companies would consider doing so. In the overall survey, 55 percent of the respondents would accept an additional board seat.

Coming to Grips with the Liability Crisis

The crisis of directors' liability insurance is still with us and some of the leading companies (seven percent) were turned down for coverage in 1986. Eighty-seven percent of the billion dollar companies saw insurance premium increases during the year (compared with 66 percent in 1985). The average increase was a startling 560 percent, up from 336 percent a year ago. For 49 percent of the companies surveyed, total dollar coverage fell by an average of 40 percent.

Most companies also say that the worst may be over. Seventy-eight percent believe the Delaware statute limiting director liability will at least partially rectify the situation. Forty-two percent of the billion dollar companies surveyed are asking their shareholders to approve a measure limiting director liability (compared with 34 percent overall), and 75 percent of these are in favor of eliminating liability altogether (compared with 69 percent overall).

Other Trends

The billion dollar corporations still lead in the recruitment of women and minority directors. This year, women continue to constitute a growing source of directorial talent, with 51 percent of these companies seating a woman director, up from 48 percent five years ago. In comparison, the number of companies overall that seat a woman director dipped this year from 45 percent to 43 percent. Fifty-nine percent of the $5 billion-and-over companies have women directors. Forty percent of the billion dollar companies report minority representation on their boards, up sharply from 31 percent in 1985.

Another development that we see in the larger corporations is the increasing use of committees to transact board business. Sixty percent of the billion dollar respondents feel there is definitely a trend toward more committee-assigned tasks in order to increase efficiency and improve productivity. Only 38 percent of the overall respondents felt this way.

Although cash compensation for directors is not an issue with the industry leaders, benefits continue to grow as an important part of the director's compensation package. Compensation plans at 79 percent of the billion dollar companies permit outside directors to defer fees until after retirement, up from 67 percent five years ago. Also important are pension/retirement income plans, matching educational gift programs and accident insurance.

The details of our findings follow. We think these insights into the trend-setting billion dollar companies will prove to be valuable indicators of the direction of boards in the future.

Lester B. Korn
Chairman

Richard M. Ferry
President

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings are for billion dollar industrial and service corporations (Table 1). When appropriate, comparisons are made between this group and all participants in our study.*

1. Size of Board (Table 2)

Billion dollar corporate boards continue to seat an average of 14 directors, one more than the 13 reported for all respondents. The average for the largest companies, $5 billion and over, is 15 members. With an average of 18 directors, banks and other financial institutions continue to maintain the largest boards, but since last year reduced the number from 20.

2. Inside Directors vs. Outside Directors (Table 2)

Outside directors constitute a majority of board members among billion dollar corporations, as they do for all respondents as a group.

This year, billion dollar corporations have an average of four inside directors and 10 outside directors, one member more than the 13 reported for all boards.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

This year, 85 percent of the billion dollar corporations report that their chairman also serves as chief executive officer, up from 83 percent last year and higher than the average of 77 percent among all corporations surveyed. Only 34 percent of the billion dollar respondents report having a chief executive officer who also acts as chief operating officer, the same as last year. This percentage is below the 38 percent for all respondents.

4. Board Composition (Table 4)

Outside directors originate most often from the following categories: CEO/COO of other companies (85 percent), retired executives of other companies (79 percent) and academicians (61 percent). (Senior executives of other companies declined to 44 percent from 86 percent in 1985 as a result of the addition of the new category "CEO/COO of other companies.") Representation of retired or previously employed corporate officers, attorneys and commercial bankers continued to decline from the averages reported five years ago.

Billion dollar companies report that 41 percent seat former government officials on their boards, about the same as last year. Their representation rises to 51 percent for $5 billion-and-over companies, compared with 28 percent for all respondents and 18 percent for smaller industrials with revenues under $200 million.

Twenty-seven percent of billion dollar boards now seat at least one "professional" director, compared with 22 percent reported in 1982.

**This year, 532 corporations responded to our Annual Study. Industrial and service corporations account for 70 percent of the total, of which 194 companies have revenues in excess of $1 billion. Banks and other financial institutions account for 16 percent, insurance companies for 10 percent and retailers for five percent.*

Women and ethnic minorities continue to constitute growing sources of outside directors for billion dollar corporations. This year, 51 percent report women on their boards, up from 48 percent five years ago. By comparison, in all companies surveyed, the number of boards with women dipped by two percent to 43 percent this year. Fifty-nine percent of the $5 billion-and-over companies have women directors. Minority membership increased from 31 percent reported in 1985 to 40 percent of the billion dollar boards this year. Five years ago, 32 percent of the billion dollar corporations reported seating an ethnic minority (Table 4A). Women directors are primarily academicians, former government officials and senior executives of other companies. Interestingly, this year more women directors were former government officials than senior executives of other companies. In 1985, the opposite was reported. Ethnic minorities are drawn primarily from the ranks of academia and chief executive and chief operating officers of other companies (Table 4B).

As part of the trend toward an increased number of independent outside directors, the billion dollar corporations seek executives with broad management experience, a primary consideration for 89 percent of the respondents. The billion dollar corporations report a higher percentage of chief executive and chief operating officers from other companies than any of the other groups in the study.

5. Committees (Table 5)

Among the billion dollar corporations, audit (99 percent), compensation/personnel (94 percent) and executive (87 percent) continue to be the most prevalent committees. And the percentage of companies using compensation/personnel and executive committees is well above the averages reported last year, up from 84 percent and 80 percent, respectively. On the other hand, billion dollar corporations report that 43 percent have a finance committee and 27 percent have a benefits committee, a decrease from the number of companies reporting both in 1982 and 1985.

Sixty-eight percent of the billion dollar companies use a nominating committee, a slight dip from the 70 percent reported in our Tenth Annual Study (Table 5A). However, the percentage rises to 77 percent for the $5 billion-and-over corporations. Among corporations with nominating committees, 28 percent use the committee in the management succession process, slightly higher than the 23 percent reported for all respondents. Of the $5 billion-and-over companies, 33 percent state the committee participates in management succession. Only the compensation/personnel committee plays a more dominant role in the management selection process among the billion dollar companies (51 percent).

Committees have an average of four to seven directors. The finance committee is the largest. The audit committee increased its members by one; the number of outside directors on the public affairs and science/technology committees decreased by one, compared with the 1985 average. As in 1985, the audit, compensation/personnel and benefits committees are composed entirely of outside directors (Table 5B).

The average number of committee meetings per year ranges from two to six. Meetings of the finance committee increased from four in 1982 and five in 1985 to six meetings in 1986. The corporate ethics committees increased their average number of meetings from two to three meetings this year (Table 5C). Sixty percent of the billion dollar respondents believe that in order to improve productivity, there is a trend toward more committee-assigned tasks, compared with 38 percent of all respondents.

6. Compensation (Table 6)

Eighty-nine percent of the billion dollar respondents compensate outside directors on an annual plus per-meeting fee basis. Correspondingly, nine percent of billion dollar corporations continue to pay an annual fee only. One percent compensate directors with per-meeting fees only.

Annual Plus Per-Meeting Fee (89 percent of the respondents)

This year, the average annual plus per-meeting fee paid to outside directors of the billion dollar companies rose to $24,264, 10 percent higher than in 1982. Furthermore, this figure is 19 percent higher than the $20,462 averaged by all respondents. The $24,264 compensation comprises an average annual fee of $17,265, a 27 percent increase over the 1982 average annual fee, and an average per-meeting fee of $901, up from $707 in 1982 and $764 in 1985. Director fees of the $5 billion-and-over industrial and service companies grew at a slightly higher pace, with an average compensation of $27,616 reported this year, compared with the $25,926 reported in our Thirteenth Annual Study.

The upper quartile compensation for the billion dollar companies, included here for comparative purposes, averages $31,025, eight percent more than the $28,715 upper quartile average for all respondents.

Annual Fee Only (Nine percent of the respondents)

In billion dollar corporations that pay an annual fee only, outside directors earned an average annual fee of $25,847. This amount is 31 percent more than the $19,744 average among all respondents using a similar method of compensation. For $5 billion-and-over industrial and service companies, average annual fees rose to $28,800, up 16 percent over the average paid in 1985.

7. Committee Compensation (Table 7)

Eighty-seven percent of the billion dollar respondents and 90 percent of the $5 billion-and-over corporations compensate their directors with an additional fee for serving on committees. While most committee members of billion dollar companies are paid on a per-meeting fee basis, most committee chairmen are compensated with an annual fee for committee service (Table 7A).

Total Annual Compensation

Including committee fees, the average total compensation paid to outside directors of billion dollar companies was reported at $28,686, compared with $23,676 for all respondents. Directors of the $5 billion-and-over industrial and service corporations earned an average of $33,646.

The upper quartile average for the billion dollar industrial and service firms was $39,867, rising to $46,379 for the $5 billion-and-over industrial and service companies (Table 7B).

8. Additional Compensation Information (Table 8)

Average total compensation for the single highest paid director at a billion dollar corporation was $34,561 in 1986 for all board service activities exclusive of any consulting arrangements. This represents a four percent increase over last year's average and a 21 percent increase over the average of five years ago.

Compensation for the upper quartile ranged from $42,697 to $68,940, with an average of $53,720 (Table 8A).

During the past year, 38 percent of the billion dollar companies raised compensation to outside directors, up from 32 percent that did so last year. Respondents reported an average increase of $2,719. This amount is less than the increase for all board respondents ($2,923) and less than last year's increase ($2,956) for the largest corporations. Twenty-eight percent of the billion dollar companies contemplate raising director fees next year by an average of $3,093, compared with the projected increase of $2,608 last year and the projected increase of $2,757 for all respondents. Seventy-six percent of the billion dollar companies expressed a conviction that, in general, their outside directors are adequately compensated.

Thirty-one percent of the billion dollar respondents have outside directors who receive special consulting fees, compared with the overall average of 26 percent.

Fifty-nine percent of the billion dollar respondents state that the primary responsibility for board compensation rests with the chairman, up from 48 percent in 1985. In 39 percent of the cases the compensation/personnel committee is responsible (up from 32 percent), and in 12 percent of the cases the nominating or selection committee plays a role in establishing appropriate compensation.

Benefits continue to gain importance for outside directors. Compensation plans at 79 percent of the billion dollar companies (and 82 percent of the $5 billion-and-over corporations) permit outside directors to defer fees until retirement, up from 67 percent five years ago. Thirty-five percent provide a pension/retirement income plan, well above the 19 percent with such plans three years ago. Other benefits commonly provided include matching educational gift programs (68 percent) and accident insurance (56 percent). Travel expense reimbursement is nearly universal (98 percent). The practice of providing directors' liability insurance decreased to 92 percent from 97 percent in 1985 (Table 8B).

Stock Ownership

Eighty-four percent of the billion dollar respondents stated that all directors should own some company stock, up from 79 percent last year. The average minimum number of shares indicated was 517.

Ninety-six percent of the respondents of all billion dollar corporations report that their outside directors do, in fact, own some stock in the companies they serve.

Liability Insurance

Although most of the billion dollar participants currently have directors' liability insurance, seven percent have been denied coverage within the past year. Eighty-seven percent of the billion dollar corporations responded that directors' liability insurance premiums were increased for those with policies up for renewal in 1986, up considerably from the 66 percent that experienced increases last year. Furthermore, the average increase soared to 560 percent, compared with 336 percent in 1985. Forty-nine percent of billion dollar corporations experienced a decrease in total dollar coverage, up from 25 percent last year. Coverage on average fell 40 percent from $60 million to $36 million.

Twenty-nine percent of billion dollar respondents and 35 percent of $5 billion-and-over industrial and service companies now are considering self-insurance, up from 16 percent and 18 percent, respectively, in 1985. When asked if respondents had been approached to join a consortium, 65 percent of the billion dollar companies reported in the affirmative, compared with 52 percent of all participants. Forty-seven percent would consider joining if asked.

9. Board Practices and Policies (Table 9)

Billion dollar corporate boards meet an average of eight times per year, the same as the average number of meetings for all respondents. For the $5 billion-and-over industrial and service firms, an average of nine meetings is held per year.

A director of a billion dollar company spends an average 125 hours per year on board-related business, including review and preparation, meeting attendance and travel, similar to last year's 126 hours and compared with 114 hours for all participants. The average for the $5 billion-and-over corporations is 141 hours. The upper quartile average is 221 hours for the billion dollar companies, compared with the upper quartile average of 204 hours for all respondents.

The chairmen of billion dollar corporations reported devoting an average of 181 hours to board duties. The time rose to 203 hours among the chairmen of the $5 billion-and-over companies, about the same as last year.

Based on reported compensation data, directors of the larger companies receive $194 per hour if compensated on an annual plus per-meeting fee basis, up considerably from the $142 reported in our Tenth Annual Study.

With committee fees taken into account, the average hourly rate for outside directors of billion dollar companies is $229, and for the largest industrial and service firms ($5 billion and over) is $239 per hour.

Eighty-nine percent of the billion dollar respondents (and 98 percent of the $5 billion-and-over respondents) have a mandatory retirement age policy for their directors. The average retirement age for outside directors remains 70. The average retirement age for inside directors is 67, and 69 for billion dollar board chairmen. The average age of the billion dollar company CEO is 57, while the boards' outside directors average 60. The youngest outside director is 49 on average and, the oldest, 70.

10. Locating Outside Directors (Table 10)

Twenty-three percent of the billion dollar corporations had at least one outside director resign from their boards this year, a decrease from 30 percent last year. Retirement was the major reason (33 percent), but less of a factor than last year when it was cited by 56 percent of the billion dollar companies. In the $5 billion-and-over corporations, retirement was cited by 36 percent, down from 65 percent in 1985. Conflict of interest (23 percent) and time demands (21 percent) were also factors—an increase from 16 percent and 13 percent, respectively, last year.

Forty-six percent of the billion dollar companies added new outside directors. Fifty-five percent of the $5 billion-and-over industrial and service firms added new outside directors, up from the 46 percent reported in 1985.

Thirty-three percent expect a board vacancy in the coming year, the same as reported in 1985. This percentage rose to 41 percent for the $5 billion-and-over companies. In identifying and selecting new outside directors, billion dollar boards continue to rely on the traditional means of recommendation by the chairman and by other board members (each 85 percent).

The nominating committee is used to select and identify new directors by 68 percent of billion dollar corporate boards and by 75 percent of the $5 billion-and-over firms, compared with the overall average of 58 percent. The use of executive search firms continues to rise. Seventeen percent of the billion dollar companies now use executive search firms to help in selecting directors, up from 13 percent in 1982 and compared with 12 percent for all respondents (Table 10).

Participants in this year's study overwhelmingly named broad management experience (cited by 89 percent) as the primary consideration in asking a director to sit on their boards. Fifty-seven percent reported that personal stature was an important factor. Other major considerations included specific industry experience and strong financial skills, each cited by 32 percent.

Twenty-five percent noted that a prospective director declined an invitation to serve on the board. Time commitment was the predominant reason for declining, cited by 74 percent of the billion dollar corporations and 85 percent of the $5 billion-and-over industrial and service companies, up from 62 percent and 72 percent, respectively, in 1985. Serving on too many boards was a reason for declining, cited by 41 percent, up from 30 percent in 1985. And the issue of legal liability jumped to 12 percent, whereas in 1985, the issue was of no significance.

11. Issues (Table 11)

When asked to rank the importance of issues facing corporate boards today, 82 percent of the billion dollar respondents ranked financial results either first, second or third, up from 77 percent last year. Next in rank was strategic planning, which was cited by 70 percent as one of the top three issues, an increase from 63 percent last year.

A major concern of the billion dollar corporations is the issue of management succession. Thirty percent cite succession as one of their top three priorities, up from 27 percent in 1985. Also of importance is the issue of mergers/acquisitions, cited by 17 percent of the billion dollar firms. However, among the $5 billion-and-over industrial and service companies, there is a marked drop in concern about mergers/acquisitions to only eight percent, down from 15 percent last year.

Two other issues identified by the billion dollar companies included financing/capitalization (27 percent) and industry competition (19 percent), up from 23 percent and 14 percent, respectively, in 1985.

When asked to project the importance of the same issues five years from now, financial results placed first (71 percent), followed by strategic planning (64 percent). Other major issues considered of long-term importance by the billion dollar corporations were managerial succession (31 percent) and industry competition (25 percent).

Seventy-one percent of the billion dollar respondents spend the most board time on issues related to financial results. Forty-nine percent are most occupied with strategic planning, followed by the issues of mergers/acquisitions and day-to-day operations (each 14 percent).

TABLE 1—PARTICIPATING COMPANIES

Of those industrial and service companies with sales volumes $1 billion or over, 194 participated in our Fourteenth Annual Study.

Size (Assets)	Number of Companies	%
$1 billion–$2.999 billion	88	45.4%
$3 billion–$4.999 billion	38	19.6%
$5 billion and over	68	35.0%
TOTAL	194	100.0%

Stock Exchange	Number of Companies	%
New York Stock Exchange	178	90.9%
American Stock Exchange	7	4.0%
Over-the-counter	2	1.1%
Other	7	4.0%
TOTAL	194	100.0%

TABLE 2—PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
$1 billion–$2.999 billion	3	9	12
$3 billion–$4.999 billion	4	9	13
$5 billion and over	4	11	15
Average	4	10	14

TABLE 3—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO %	CEO/COO %
Yes	84.7%	33.5%
No	13.5%	64.1%
No response	1.8%	2.4%
TOTAL	100.0%	100.0%

TABLE 4—BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	1982 Companies Over $1 Billion	1986 Companies Over $1 Billion	1986 All Companies Surveyed
CEO/COO of other companies	—	84.7%	74.2%
Retired executive (other companies)	72.6%	79.4%	67.4%
Academician	63.9%	61.2%	49.7%
Senior executive (other companies)	92.7%	43.5%	46.0%
Woman	47.9%	50.6%	42.9%
Retired or previously employed corporate officer	53.4%	42.9%	40.2%
Attorney (does not provide legal services for the company)	33.3%	30.0%	35.3%
Major shareholder (not officer of the company)	25.6%	25.9%	30.9%
Ethnic minority member	31.5%	40.0%	29.5%
Former government official	43.8%	41.2%	27.6%
Commercial banker	37.4%	32.4%	25.0%
"Professional" director	21.9%	26.5%	25.0%
Investment banker	26.9%	28.2%	24.3%
Attorney (provides legal services for the company)	21.9%	19.4%	23.7%
Non-U.S. citizen	23.3%	18.8%	13.0%
International executive (American)	8.7%	8.8%	6.2%

FIVE-YEAR TREND

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	24.4%	27.9%
Former government officials	23.3%	13.2%
Senior executives (other companies)	18.6%	5.9%
CEOs/COOs (other companies)	12.8%	20.6%
Attorneys (do not provide legal services)	8.1%	13.2%

TABLE 5—COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	% 1982 Companies Over $1 Billion	% 1986 Companies Over $1 Billion	% 1986 All Companies Surveyed
Audit	97.7%	99.4%	97.5%
Compensation/Personnel	90.0%	94.1%	90.5%
Executive	80.8%	87.1%	80.4%
Nominating	70.3%	68.2%	57.9%
Finance	45.2%	42.9%	34.6%
Benefits	32.9%	26.5%	25.0%
Public affairs	16.0%	12.9%	9.9%
Corporate ethics	10.5%	10.0%	7.2%
Science/Technology	—	4.1%	3.7%

FIVE-YEAR TREND

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	5
Compensation/Personnel	0	4	4
Executive	2	3	5
Nominating	1	4	5
Finance	2	5	7
Benefits	0	4	4
Public affairs	1	4	5
Corporate ethics	1	3	4
Science/Technology	1	3	4

5C. How many committee meetings were held during the past 12 months?

Committee	1982 Average Number of Meetings	1985 Average Number of Meetings	1986 Average Number of Meetings
Audit	3	3	3
Compensation/Personnel	4	4	4
Executive	3	4	4
Nominating	2	2	2
Finance	4	5	6
Benefits	4	3	3
Public affairs	3	3	3
Corporate ethics	3	2	3

FIVE-YEAR TREND

TABLE 6—COMPENSATION

How are board members compensated?
Annual Plus Per-Meeting Fee (89 percent of respondents)

Annual Fee Amount	%
Under $7,000	3.4%
$7,000–$10,999	6.1%
$11,000–$13,999	10.9%
$14,000 and over	79.6%
TOTAL	100.0%
Average Annual Fee	$17,265

PLUS

Amount Per Meeting	%
Under $500	1.4%
$500–$599	10.9%
$600–$799	41.5%
$800 and over	46.2%
TOTAL	100.0%
Average Per-Meeting Fee	$901

EQUALS

Total Annual Compensation	%
Under $14,000	6.8%
$14,000–$16,999	5.4%
$17,000–$19,999	12.9%
$20,000–$24,999	32.0%
$25,000 and over	42.9%
TOTAL	100.0%
Average Total Annual Compensation	$24,264

Size of Company	1982 Average Compensation	1986 Average Compensation	1986 Upper Quartile Average
$1 billion–$2.999 billion	$18,300	$20,971	$26,995
$3 billion–$4.999 billion	$26,760	$25,966	$32,106
$5 billion and over	$24,960	$27,616	$33,400
Average	$22,040	$24,264	$31,025
		FIVE-YEAR TREND	

TABLE 7—COMMITTEE COMPENSATION

7A. What is the average committee fee for outside directors?

Committee	Member	Chairman
	Average Per-Meeting Fee	Average Retainer
Audit	$715	$4,403
Compensation/Personnel	$700	$3,970
Executive	$723	$4,995
Nominating	$694	$3,511
Finance	$721	$8,095
Benefits	$688	$2,683

7B. What is the average total annual compensation, including committee fees, for outside directors?

Size of Company	Average Compensation	Upper Quartile Average
$1 billion–$2.999 billion	$24,912	$33,551
$3 billion–$4.999 billion	$30,622	$38,561
$5 billion and over	$33,646	$46,379
Average	$28,686	$39,867

TABLE 8—ADDITIONAL COMPENSATION INFORMATION

8A. How much did the highest paid director receive in 1986 for all board services exclusive of any consulting arrangement?

Amount	%
Under $11,000	1.3%
$11,000–$16,999	3.9%
$17,000–$24,999	14.2%
$25,000–$29,999	19.4%
$30,000–$39,999	40.6%
$40,000 and over	20.6%
TOTAL	100.0%
Average	$34,561

Highest paid director

	1982 Average Compensation	1986 Average Compensation	1986 Upper Quartile Average
$1 billion–$2.999 billion	$24,090	$29,055	$42,697
$3 billion–$4.999 billion	$30,580	$36,125	$51,355
$5 billion and over	$36,200	$42,562	$68,940
Average	$28,680	$34,561	$53,720

FIVE-YEAR TREND

8B. What benefits are included in the compensation plan for outside directors?

	% 1982	% 1985	% 1986
Travel expense reimbursement	91.8%	97.2%	97.6%
Directors' liability insurance	91.8%	96.7%	91.8%
Deferral of board fees until retirement	66.7%	75.3%	79.4%
Matching educational gifts program	60.3%	69.3%	67.6%
Accident insurance	54.8%	61.9%	55.9%
Pension/Retirement income plan	—	66.9%*	35.3%
Travel expenses for spouse	28.3%	31.2%	30.6%
Life insurance	24.2%	27.4%	28.2%
Medical insurance	11.9%	10.7%	14.7%
Stock options	—	—	6.5%

FIVE-YEAR TREND

*Figure represents pension plan (30.2%) and retirement income plan (36.7%)

TABLE 9—BOARD PRACTICES AND POLICIES

How many hours (estimated) do directors spend annually on board matters, including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	2.9%
40–70	17.1%
71–100	15.9%
101–130	24.1%
131–160	13.5%
161–190	7.6%
191 and over	10.7%
No response	8.2%
TOTAL	100.0%
Average	125 hours

Size of Company	Number of Hours	Upper Quartile Average
$1 billion–$2.999 billion	113	192
$3 billion–$4.999 billion	133	248
$5 billion and over	141	241
Average	125	221

TABLE 10—LOCATING OUTSIDE DIRECTORS

How are outside directors located for the board?

	%1982	%1986
Recommended by chairman	81.7%	85.3%
Recommended by board members	77.6%	84.7%
Nominating committee	67.1%	67.6%
Recommended by other corporate officers	33.8%	40.0%
Executive search	13.2%	17.1%
Referred by executive acquaintances	12.3%	13.5%

FIVE-YEAR TREND

TABLE 11—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	45.3%	67.6%	82.4%
Strategic planning	25.3%	49.4%	70.0%
Management succession	8.8%	18.8%	30.0%
Financing/Capitalization	1.2%	11.8%	27.1%
Industry competition	3.5%	9.4%	18.8%
Mergers/Acquisitions	1.2%	7.6%	17.1%
Day-to-day operations	4.7%	8.8%	12.4%
Corporate takeovers	2.4%	5.9%	7.6%
Government relations	0.0%	1.8%	3.5%
Shareholder relations	0.0%	2.4%	3.5%
Communications/Public relations	0.0%	0.0%	2.9%
Multinational issues	0.0%	0.6%	1.8%
Ethics/White collar crime	0.6%	1.2%	1.2%

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